LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6833
BILL NUMBER: HB 1606

NOTE PREPARED: Feb 13, 2015
BILL AMENDED: Feb 12, 2015

SUBJECT: Rural Entrepreneurship Area Incentives.

FIRST AUTHOR: Rep. Smaltz
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill permits the Office of Community and Rural Affairs (OCRA) to designate an applicant rural county as a Rural Entrepreneurship Area Development Incentives area (READI area).

The bill provides for the distribution of Adjusted Gross Income (AGI) taxes paid annually by employees working in an area for a new business or paid annually by additional employees in an existing business and by the new business itself to the rural county for the development of new business opportunities in the rural county, including transfers to local or regional venture capital funds. It limits the amount that may be distributed to a particular county in a state fiscal year to $250,000. It also limits the total amount that may be distributed to all counties in a state fiscal year to $5 M.

The bill requires matching local funds to qualify for a distribution. It specifies the authorized sources of the matching local funds. It appropriates money collected from counties with a READI area for distribution to those counties.

The bill specifies the types of projects that may be funded from a county's READI fund, upon appropriation by the county fiscal body and after recommendation by a local economic development organization in the county.

Effective Date: Upon passage.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will annually compute the incremental AGI tax revenue for the preceding year for each READI area before the first business day in October. The DOR should be able to implement this program with its current level of staff and resources.

(The DOR has expertise administering similar tax capture areas like Certified Technology Parks.)

Indiana Economic Development Corporation (IEDC): The IEDC must approve the amount of incremental AGI tax distributed to each READI area. The IEDC should be able to perform this task with its current level of staff and resources.

Office of Community and Rural Affairs (OCRA): The OCRA will have to develop applications and an approval process for prospective READI areas. The OCRA will also make the determination as to whether a business qualifies as a new business for the purpose of computing the incremental AGI tax distribution. The OCRA should be able to implement this program with its current level of staff and resources.

State Board of Accounts (SBOA): The SBOA will audit each READI fund every two years to determine if the state transferred the appropriate amount of revenue, and whether the money in the fund was used in accordance with the county's agreement with the OCRA. The SBOA's existing staffing and resource levels, if currently being used to capacity, may be insufficient for full implementation. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend on legislative and administrative actions.

Explanation of State Revenues: This bill allows rural counties, counties with a population less than 50,000, to apply to the OCRA to be designated as a READI area. Counties designated as a READI area will receive a distribution of incremental state AGI tax revenue deposited into their READI fund. In order to receive the state distribution, a county must commit to deposit an equal amount of local funds each fiscal year. This bill will reduce state General Fund revenue equal to the amount of distributions provided during the fiscal year.

The fiscal year incremental READI distribution equals result of (1) below minus the result of (2) below.

(1) The sum of:
  a. The total amount of state AGI taxes paid by employees of a new business with respect to the wages and salary earned for work in the territory.
  b. The total amount of state AGI taxes paid by any additional employees of an existing business within the area with respect to the wages and salary earned for work in the territory.
  c. The total amount of state income taxes paid by a new business located in the territory with respect to the income sourced to the READI area.
(2) The sum of:
  a. The total EDGE credits awarded to a new business operating within the area.
  b. The total amount of the incremental state AGI taxes resulting from an expansion with no state incentives and the creation of at least one additional job paid by an existing business within the area.

The maximum annual distribution a county could receive is $250,000. The total state revenue loss is limited to $5 M per fiscal year regardless of the number of designated READI areas. If the total distribution would otherwise exceed $5 M, each county's distribution will be proportionally reduced. The actual reduction in revenue will depend on the number of READI areas established and the economic activity within each territory. According to data from the U.S. Census Bureau, there are 65 counties with a population below 50,000.

Explanation of Local Expenditures: If an eligible county decides to apply for a READI area designation, the county is required to submit an economic development plan along with the necessary ordinances to the OCRA. The county also has to manage the READI fund. If the county chooses to establish a revolving loan fund, it must approve the terms of loans granted to new businesses. The county may have to employ an expert consultant to assist in the development plan and to establish the criteria for approving loans. The county would have to apply sufficient funds and resources to accomplish this initiative.

If selected by the OCRA, this designation is effective until the OCRA rescinds the designation, the date specified in an ordinance nominating the county for designation, or January 1, 2026.

Explanation of Local Revenues: *Summary* - Rural counties with a designated READI area will receive a distribution comprised of the incremental state AGI tax revenue from qualifying economic activity within the territory. The maximum annual distribution a county may receive is $250,000. To receive the distribution, a designated county must also commit a matching amount of local revenue. The actual revenue collected by a designated county will largely depend on the success of the businesses and wages paid to employees within its boundaries.

(Revised) *Additional Information* - Under this bill, counties with a population less than 50,000 may apply to the OCRA to be selected as a READI area. As part of the approval process, the county has to submit a written plan for supporting entrepreneurship and establishing new businesses. In addition, the county must commit a portion of local revenue to a dollar-for-dollar match of the annual state distribution. If a county has adopted a County Economic Development Income Tax (CEDIT), at least 50% of the match must be funded by CEDIT. The remaining part of the local match may be funded by any public funds (other than property taxes) of the county or county redevelopment commission and any contributions made by a private entity.

An approved READI area consists of the entire county outside the boundaries of existing tax incentive zones. Once an area is terminated, the remaining funds revert to the state General Fund.

Money deposited in a county's READI fund may only be used for the following purposes after recommendation by a local economic redevelopment commission:

- Transfer money to a revolving fund.
- Transfer money to a regional or local venture capital fund established under current law.
- Business incubator and accelerator development and operation.
- Small business support services.
- Assisting in the development of high speed Internet service areas of the county where a provider does not offer specified levels of service.
- Establish entrepreneurial internships or classes that partner county high schools with businesses in the area.

The county may use money from the READI fund to establish a revolving loan fund. If a revolving loan fund is created, the county fiscal body would have to approve the terms of the loans. Interest payments on loans made from the revolving fund revert back to the fund. A county may not issue bonds using the fund as collateral.

Two or more counties may enter into a written agreement to jointly administer a READI area. Counties entering into a joint agreement will be considered to be one county

State Agencies Affected: Department of State Revenue, Indiana Economic Development Corporation, Office of Community and Rural Affairs, State Board of Accounts.

Local Agencies Affected:

Information Sources:

Fiscal Analyst: Heath Holloway, 232-9867.